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SIPDIS

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SUBJECT: ECONOMIC MONTHLY REPORT: October-November 2005

Summary

¶1. (U) In this edition: The Central Bank of Egypt (CBE) narrows the overnight interest rate band, and issues new checking regulations. Planners from the World Economic Forum (WEF) meet with GOE officials to discuss the WEF meeting on the Middle East, to be held in Sharm el Sheikh in May 2006. The National Competitiveness Council issues its second report on Egypt's competitiveness, while Merrill Lynch and Capital Intelligence issue reports on Egypt's currency rating and economic outlook. The GOE decides to increase its export of natural gas, while Apache sells part of its holding in Egypt and Oriental Weavers signs an agreement with the Holding Company for Petrochemicals to build a new petrochemical facility. The GOE also announces plans to issue licenses to provide services currently provided only by Telecom Egypt. The GOE also announces new air pollution monitoring facilities, and attends a number of meetings on Nile Basin issues. End summary.

Monetary Policy

¶2. (U) In its monthly meeting held on October 5, 2005, the Monetary Policy Coordinating Committee (MPCC) decided to narrow from 2.5% to 2% the width of the overnight interest rate corridor (the range of interest rates within which banks may set overnight lending rates). The corridor was thus reduced from 9-11.5% to 9-11%. According to a statement by CBE, the MPCC believes that any potential inflationary risk stemming from the reduction in the corridor is balanced in the near term by other economic data available regarding spending-saving ratios.

Banking Regulations

¶3. (U) In early October, the CBE circulated instructions to all banks to start application of new check regulations, as stipulated in Trade Law No. 17 of 1999. The execution of this legal requirement was delayed for six years due to lack of preparedness on the part of both banks and the business community. The regulations (Article 473 of the trade law) strictly define the type of checks for which legal protection applies: only checks issued on the official paper of the bank from which it is drawn. Many Egyptian businesses deal primarily in unofficial, or non-banking checks (also known as handwritten, office or personal checks). Some members of the business community reacted negatively to the new instruction, but the CBE made it clear in the instruction that it would not allow further delay in executing the legal requirements of the law.

World Economic Forum

¶4. (U) On October 5 representatives of the WEF and Egypt's Ministry of Foreign Trade and Industry met in Sharm El Sheikh to sign a Memorandum of Understanding for the WEF on the Middle East, to be held May 20-22, 2006, in Sharm el Sheikh. The WEF on the Middle East will devote a considerable part of the agenda to business issues in the Middle East as well as political, security, energy, and reform issues. According to Egyptian Minister of Foreign Trade Rachid, the WEF on the Middle East signals an important milestone for Egypt. Rachid stated "The decision to bring the WEF to Sharm El Sheikh sends a clear signal: Egypt is open for business. We are serious about reform. We are determined to engage - as an equal and active partner - with our global peers. The international community believes in our commitment and is prepared to support Egypt as it strives for change."

Second National Competitiveness Report

¶5. (U) The National Competitiveness Council issued the second National Competitiveness Report (2004-2005) for Egypt in October. The report concluded that Egypt remains behind its peers in competitiveness. The report did not, however, take into consideration the economic reforms of the Nazif administration. The Executive Opinion Survey (EOS) - a tool used by the Competitiveness Council to translate perceptions about the country's economic environment into measurable and comparable indicators - was conducted in March 2004, before the Nazif administration took office in July 2004. In analyzing the impediments to business in Egypt, the EOS identified eight constraints, ranked in order of significance: 1) access to financing; 2) tax regulations and rates; 3) inefficient bureaucracy; 4) policy instability; 5) foreign currency regulations; 6) inflation; 7) an inadequately educated workforce; and 8) restrictive labor regulations. Although many of these impediments remain unchanged, the Nazif administration has addressed some of them, such as tax rates and regulations, which were changed by a new law passed in June of 2005.

Ratings Institutions On Egypt

¶6. (U) A report by Merrill Lynch in October forecasted an appreciation in the real value of the Egyptian Pound (LE) in the medium term, while the nominal value was not expected to change significantly, in light of the GOE's intention to boost non-oil exports. The report also estimated that recent tariff cuts would help keep inflationary pressures under control, as would stability of the LE due to CBE's success in controlling liquidity, and the still wide supply-demand margin. The report predicted the national economy would continue to recover, with a real growth rate rising from 5.1% in 2004/2005 to 6% in the present fiscal year, which will end June 2006. Recent economic growth has been driven primarily by export growth, but growth in domestic consumption and private sector investment will likely increase in the present fiscal year.

¶7. (U) Capital Intelligence (CI), the international emerging markets rating agency, announced on October 12, that it affirmed Egypt's BB+/B long- and short-term foreign currency ratings and its BBB/A3 long- and short-term local currency ratings. The outlook remains stable. According to CI, Egypt's ratings are supported by improved international liquidity and a manageable external debt burden. CI also noted that while the rate of economic growth has accelerated over the past few years, it remains below the level needed to absorb the approximately 3% annual growth in the labor force. CI noted that the GOE's renewed commitment to structural reform raises the prospect that a more resilient and dynamic economy will emerge over the medium term.

Industrial Development

¶8. (U) In mid November Minister Rachid met with the Federation of Industries and the presidents of chambers of commerce to discuss the GOE's 2005-2025 industrial strategy. The goal of the strategy is for Egypt to become the leading industrial country in the MENA region, and a center of low-technology exports. To reach this goal, the GOE plans to increase industrial production, target export development, and attract more FDI. The 20-year strategy sets growth targets for real industrial production (from 5 percent in 2005 to 9 percent in 2020), industrial investment (from a projected LE 16 billion in 2006 to LE 229 billion in 2025), exports (from an estimated LE 20 billion in 2006 to LE 291 billion in 2025), and new jobs (from an expected 134,000 in 2006 to 911,000 in 2025).

Intellectual Property Rights

¶9. (U) In late November an Egyptian delegation participated in the Fifteenth International Intellectual Property Rights Conference in Geneva. The delegation pressed the case for making Egyptian cotton an internationally recognized geographical indicator, as a way to protect the use of the Egyptian cotton trademark.

Energy

¶10. (U) In late October, press reports indicated that the GOE decided to allocate a quarter of Egypt's proven reserves of natural gas for export. Reports estimates proven gas reserves at approximately 67 trillion cubic feet (TCF), with

an additional 80-100 TCF of probable/undiscovered reserves. Exports of natural gas come chiefly from three liquefied natural gas projects: 1) Damietta, from which the Spanish electric utility, Union Fenosa, began exporting in January 2005; 2) Idku, which came on line in October and is operated by British Gas and the Malaysian state oil company Petronas; and 3) the Arab Gas Line to Jordan, which started operation in mid-2003. Oil and gas accounted for approximately 12% of Egypt's GDP and total exports of natural gas are expected to double to 12 million tons in FY 2005/06.

¶11. (U) On October 9, the Egyptian Holding Company for Petrochemicals and Oriental Weavers signed an agreement for the construction of a new petrochemical facility. Total investment in the facility will be $350 million, shared by the Egyptian Holding Company for Petrochemicals, the Oriental Weavers Group, and the latter's subsidiary Sharqioun for Petrochemicals. The new facility will produce an annual 350,000 tons of poly-propylene, a major component in manufacturing carpets, ready-made clothes and pipelines.

¶12. (U) In mid October, Apache Corporation reached an agreement with Amerada Hess Corporation to sell its 55% interest in the deepwater section of Egypt's West Mediterranean Concession for $413 million. Apache has also agreed to purchase Amerada Hess's interests in eight fields located in the Permian Basin of West Texas and New Mexico, six of which are currently operating, for $404 million.

¶13. (U) In mid November, press reports indicated that a new 370 km section of the Arab Gas Line to Jordan has been completed. This section of the pipeline will transport Egyptian natural gas from Al Aqaba port in southern Jordan to the Samra and Rehab power stations in the north. A joint venture company, "Egyptian-Jordanian Fajr Company," constructed the pipeline at a cost of $300 million. The pipeline is part of a broader plan to distribute Egyptian natural gas throughout the region, including to the Zahrani refinery in northern Lebanon and to Banias, Syria. Gas exports to Jordan generated gross revenues of approximately $60 million in FY 2003/04 and have already reached $85 million in the current FY.

¶14. (U) In early November, press reports indicated that the Ministry of Electricity was implementing a project to modernize the High Dam Electricity Station. The project will be funded with a loan of $580 million from the German Reconstruction Bank.

Telecommunications

¶15. (U) In mid-October, Minister of Communications and Information Technology Tarek Kamel indicated that new telecom services licenses would be offered internationally before the end of 2005 for international gateway and Voice over Internet Protocol (VoIP) services currently monopolized by Telecom Egypt (TE). These measures are part of overall plans to deregulate the telecommunications sector by the end of 2005 in accordance with Egypt's obligations under the Basic Telecom Agreement, a part of the WTO General Agreement on Trade in Services.

¶16. (U) On November 1, Alex Shalaby replaced Osman Sultan as President and CEO of MobiNil. Shalaby has extensive experience in the telecom field and joined Mobinil in 1998. During the third quarter of 2005, Mobinil succeeded in adding 1.4 million subscribers, bringing the total number of Mobinil subscribers to about 7 million, a 26% increase over the first half of 2005.

¶17. (U) On November 11, the Egyptian National Telecommunications Regulatory Authority (NTRA) gave Mobinil and Vodafone two months to improve services and raise network capacity to accommodate new subscribers. Official reports released in November indicate that total mobile subscribers have increased to more than 13.5 million, exceeding fixed-line subscribers (10.3 million) for the first time. The increase was driven by a big jump in low-income subscribers to mobile services. A separate report published in late November predicted that Egypt's mobile market would reach 21.1 million by the end of 2008.

¶18. (U) In late November, Alaa Fahmi, Executive Director of NTRA, stated that a third cell phone operator is expected to launch its services in Egypt by the end of 2006. He added that the third operator would receive benefits that will enable it to compete with the other existing two GSM operators and noted that six international firms have expressed interest in investing in Egypt's telecom sector. In a recent meeting with Akeel Bashir, Chairman of TE, Bashir told embassy staff that while TE does not have a wireless license, it owns 25.5% of Vodafone. He added that TE would not compete for the third cell phone license, unless it was confident that it could increase profits over

its shares in Vodafone.

¶19. (U) In mid November, Minister Kamel headed the Egyptian delegation to the World Summit on the Information Society (WSIS) held in Tunis in November 16-18, 2005. The delegation included government, private sector and civil society representatives. During the summit, Dr. Kamel held bilateral meetings with counterparts from various countries, and affirmed that Egypt's telecom services would be liberalized by early 2006, including issuance of licenses to provide VoIP services. At the end of the Summit, the minister warned against broadband becoming a new digital divide between developed and developing countries.

Environment

¶20. (U) In late October, Egyptian Minister of State for Environment Affairs, Maged George, told the press that LE 4.5 million would be allocated for refurbishment of four pollution-monitoring centers within Greater Cairo. In addition, six new centers would be built. All 10 locations will be linked to a central station, which will monitor pollution levels and issue advisories as appropriate.

Nile River

¶21. (U) Several meetings related to Nile Basin issues took place in October. In early October the Egyptian-Sudanese Nile Water Authority met in Khartoum to discuss future projects, including resumption of the Jonglei Canal project. In mid-October Dr. Abdel Fattah Metawi, First Undersecretary of the Ministry of Irrigation and Water Resources, headed the Egyptian delegation to the Nile Basin Initiative technical meeting in Holland. The press also reported in October that this year's Nile flooding was slightly above average, with the water level at Lake Nasser rising to 174.5 meters above sea level.

Economic Statistics

¶22. (U)

Exchange Rate:

	(09/29/05)		(11/30/05)	
Egyptian Pounds/$	Buying	Selling	Buying	Selling
Avg. Bank/Bureau Rate	575.10	577.70	575.22	577.55

Capital Market:

	(09/29/05)	(11/30/05)
Capital Markets Authority Index	1988.58	2055.64
Hermes Financial Index	48113	49354
EFG Index	25123	25210

Interest Rates:
(percent, monthly comparison)

Interbank Overnight	9.42	8.86 (12/4)
T-bills (182 days)	9.46	9.36 (10/31)
T-Bond (maturing 01/06)	4.15	4.15
T-Bond (maturing 04/09)	5.50	5.50

Foreign Reserves:
(US $ billion, official gov't figures)

(09/2005)	(11/2005)
21,113.1	21,212.1